

Federal Aviation Administration

## Advisory Circular

**Date:** 8/31/98

**Initiated by:** AAS-400

Subject: GUIDE FOR AUDIT CERTIFICATION BY

AIRPORT SPONSORS

1. INTRODUCTION. Section 805 of the Federal Aviation Administration (FAA) Reauthorization Act of 1996 requires non-Federal entities to submit, as part of their "Single Audit" required by 31 U.S.C. §§ 7501 through 7505 (the Single Audit Act, as amended), a review and opinion concerning their funding activities with respect to an airport that is the subject of the project grant (or other Federal financial assistance) and the sponsors, owners, and operators (or other recipients) involved. [49 U.S.C. § 47107(m)]

The congressional intent of Section 805, in part, was to impose a financial reporting requirement designed to identify instances of illegal diversion of certain revenues generated by a public airport. Title 49 U.S.C. §§ 47107(b) and 47133 (the revenue use requirements), together, require airports that are the subject of Federal assistance (including, but not limited to Airport Improvement Program (AIP) grant funding) to use the revenues generated from a public airport for the capital or operating costs of the airport, the local airport system, or other local facilities owned or operated by the airport owner or operator and directly and substantially related to the air transportation of passengers or property.

- **2. PURPOSE.** This advisory circular (AC) provides airport sponsors with guidance for complying with the audit certification requirement of 49 U.S.C § 47107(m) and discusses FAA's responsibilities for the certification program.
- **3. APPLICABILITY.** This AC contains information that applies to AIP Sponsors. However, this AC is not applicable to the following:
  - **a.** Privately owned airports.

**b.** Non-Federal entities that are not subject to the requirements of the Single Audit Act of 1984, as amended.

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Change:

- **4. SOURCES.** Federal guidance on single audits is contained in the following legislation, regulations, policies, procedures, grant assurances, circulars, and guidance.
- a. Title 31 U.S.C. §§ 7501 through 7505. These titles establish the requirement for certain non-Federal entities expending Federal grant awards to have an annual audit of their financial statements and Federal grant awards.
- **b.** Title 49 U.S.C. § 47107(b) and 47133. These titles establish the airport "revenue use requirement."
- **c. Title 49 USC § 47107(m).** This title establishes the audit certification requirement as part of a public agency's single audit.
- **d.** Title 49 USC § 47121. This title establishes audit and record keeping requirements.
- e. Title 49 USC § 47131. This title establishes annual reports from airport Sponsors.
- f. OMB Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations. This AC superseded OMB A-128. Circular A-133 implements the Single Audit Amendments of 1996. The Amended Act raised the audit threshold from \$100,000 to \$300,000.
- **g. DOT** Single Audit Compliance Supplement. This DOT supplement to OMB guidance provides additional guidance for complying with the Single Audit Act of 1984, as amended.

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- **h. Grant Assurance 13.** This assurance requires that certain provisions relating to an airport's accounting system and audit and record-keeping requirements be incorporated in AIP grant agreements.
- **i. Grant Assurance 25.** This grant assurance implements the revenue use requirements of 49 U.S.C. § 47107(b) and requires an airport sponsor to furnish annual audit certifications in accordance 49 U.S.C. § 47107(m).
- **j. Grant Assurance 26.** This assurance provides for reports and inspections.
- k. Federal Register notice on Policy and Procedures Concerning the Use of Airport Revenue dated February 26, 1996. This document discusses in detail the requirement, applicable to public airports that have received Federal grants, that revenue generated by the airport generally be used only for airport purposes.
- **1. Federal Register Supplement dated December 18, 1996.** Notice on Policy and Procedures Concerning the Use of Airport Revenue. This document provides additional information and clarification to the policy issued on February 26, 1996.
- m. FAA Order 5190.6A, *Airport Compliance Requirements*. This order provides policies and procedures for FAA functions related to airport compliance.
- n. FAA AC 150/5100-10A, Accounting Records Guide for Airport Improvement Program Sponsors. This AC provides record-keeping, reporting, and auditing requirements imposed on Sponsors of AIP projects under the Airport and Airway Improvement Act.
- **5. SINGLE AUDIT REQUIREMENT.** The Single Audit Act, as amended by Pub. L. 104-156, requires non-Federal entities that expend \$300,000 or more in Federal grant awards annually to have an annual audit that includes both the agency's financial statements and Federal grant awards.
- **6. AUDIT CERTIFICATION REQUIRE- MENT.** A public agency required to have an annual audit conducted under the Single Audit Act requirements, as amended, must include as part of its single audit, a review and opinion of the review on the agency's funding activities with respect to its airport or local airport system.

**a.** Non-Federal entities affected by requirement. Non-Federal entities affected by this requirement are those agencies that have a single audit requirement and own or operate an airport which has received any of the following:

- (1) Interest in surplus property for the purpose of developing, improving, operating, or maintaining a public airport on or after October 1, 1996.
- (2) An airport development grant and the airport sponsor is subject to the assurances of that grant on or after October 1, 1996, either directly or through a state block grant program.
- (3) An airport-specific AIP planning grant on or after October 1, 1996.
- **b.** Content of Review. The review will provide an audit of the airport's financial transactions, and a specific review and opinion as to whether funds paid or transferred from the airport to the sponsor were paid or transferred in a manner consistent with 49 U.S.C. 47107(b) and related policies and procedures, including FAA's Policy and Procedures Concerning the Use of Airport Revenues.
- **c. Duration of Audit Certification Requirement.** Obligations relating to the use of airport revenue in effect on or after October 1, 1996, remain in effect so long as the airport is used as an airport. The duration of the audit certification requirement is the same.
- **d.** Frequency of Certification. Audit certifications required by 49 U.S.C. § 47107(m) shall be performed each time an applicable public agency is required to conduct a Single Audit in accordance with the Single Audit Act and OMB Circular A-133.
- **e. AUDIT CERTIFICATION RESPON- SIBILITIES GENERAL.** There are four parties involved in the audit certification process; the airport sponsor, the auditor, the Office of Inspector General (OIG), and the FAA.
- **f. Audit Certification Responsibilities Airport Sponsor**. To assure compliance, the airport sponsor:
- (1) Selects an auditor. This can be a public accountant or a Federal, State, or local government audit organization, which meets the

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general standards specified in generally accepted government auditing standards (GAGAS). The term auditor does not include internal auditors of non-profit organizations.

- (2) Ensures that the engagement letter, agreed upon audit procedures, and/or other statements of work contain a specific requirement for the auditor, in conducting the single audit, to complete the required audit and provide the required opinion on the use of airport revenues;
- (3) Ensures the engagement letter, agreed upon audit procedures, and/or other statements of work provides that the auditor will (a) audit and express an opinion on the airport's financial statements, and (b) determine whether funds paid, and property or services transferred from the airport were paid or transferred in a manner consistent with 49 U.S.C. § 47107(b) and related policies and procedures, including the FAA's Policy and Procedures Concerning the Use of Airport Revenues;
- (4) Ensures that the auditor fully understands the audit certification requirement and the steps the auditor must take to meet the audit certification requirement. It is critical that this is accomplished at the start of the single audit process to avoid the need to reopen a completed audit to correct any errors or omissions.
- (5) Ensures that the audit certification review is conducted in accordance with OMB Circular A-133 and GAGAS:
- (6) Responds to audit findings and cooperates with the FAA in resolving any problems;
- (7) Keeps the audit certifications on file for at least three years from the date of their issuance;
- (8) Submits copies of the Single Audit report and audit certification report to the single audit central clearinghouse and submits a copy of the audit certification to the FAA, Airports Compliance Division (AAS-400), 800 Independence Avenue, S.W., Washington, D.C., 20591. FAA regional offices may continue to request separate copies of the Single Audit Report to support their administration of AIP grants.

(9) Submits written notification to FAA Airports Compliance Division of any filing extension granted by the cognizant agency as described in Paragraph 10.b.

- **7. Audit Certification Responsibilities The Auditor.** To assure compliance, in accordance with the engagement letter, agreed upon audit procedures, and/or other agreements which reflect the auditor's scope of work, the auditor:
- **a.** Performs a major program audit or alternative procedure which will satisfy the requirement of 49 U.S.C. 47107(m) and grant assurance No. 25(b).
- **b.** Obtains an understanding of the airport's internal control systems and perform tests as they relate to the FAA's Policy Regarding the Use of Airport Revenues.
- c. Performs tests of transactions sufficient to determine whether funds paid and property or services transferred to sponsors were, or were not paid or transferred in a manner consistent with 49 U.S.C. § 47107(b) and related policies and procedures, including the FAA's Policy and Procedures Concerning the Use of Airport Revenues.
- **d.** Carries out the audit in a professional and responsible manner and in accordance with the provisions of OMB Circular A-133 and FAA's compliance supplement for the AIP.
- **e.** Prepares a certification report in accordance with GAGAS, OMB Circular A-133.
- **f.** Keeps working papers and reports for three years from the date of the audit report.
- **8.** Audit Certification Responsibilities OIG. As part of the single audit process, the OIG may do the following:
- **a.** Obtain or make quality control reviews of selected audits made by non-Federal audit organizations and advise the cognizant Federal agency of audits that have been found not to have met the requirements of the Single Audit Act and/or OMB Circular A-133.

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- **b.** Inform other affected Federal organizations and appropriate Federal law enforcement officials of any reported illegal acts or irregularities.
- **c.** Perform or arrange for special or supplemental audits to the single audit at the request of the FAA.

## 9. Audit Certification Responsibilities - FAA.

The FAA:

- **a.** Determines that audits are made and distributed in accordance with OMB Circular A-133, this AC, and 49 U.S.C. § 47107(m).
- **b.** Investigates potential instances of unlawful airport revenue diversions identified in the single audit reports, and ensure sponsors take the appropriate corrective actions.
- c. Requires sponsors to take the appropriate corrective actions when single audit reports are found by the OIG not to be in compliance with OMB Circular A-133 and/or 49 U.S.C. § 47107(m).
- **10. AUDIT CERTIFICATION REPORT.** The auditor's (audit certification) report will be a separate report, combined as a separate section within the single audit report. The report will also state that the audit was conducted in accordance with OMB Circular A-133 and GAGAS.
- **a. Audit Certification Contents.** At a minimum, the audit certification report includes the following:
- (1) An opinion (or disclaimer of opinion) as to whether the financial statements of the airport present fairly, in all material respects, the financial position of the airport.

- (2) A report on the airport's internal control structure as it relates to use of airport revenue. This report shall describe the scope and results of the internal control testing performed.
- (3) A specific opinion on compliance with the revenue use requirement. The opinion (or disclaimer of opinion) shall specify whether funds paid and property or services transferred to sponsors were paid or transferred in a manner consistent with 49 U.S.C. § 47107(b) and FAA's Policy and Procedures Regarding the Use of Airport Revenues.
- (4) A schedule of findings and questioned costs for the airport that includes a summary of the auditor's results relative to the FAA's Policy and Procedures Regarding the Use of Airport Revenues.
- b. Audit Report Submission. In accordance with OMB A-133, the certification is completed and submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to, in advance, by the cognizant or oversight agency for audit. (However, for fiscal years beginning on or before June 30, 1998, the audit must be completed and the certification shall be submitted within the earlier of 30 days after receipt of the auditor's report, or 13 months after the end of the audit period.)
- 11. MONITORING AND COMPLIANCE. The FAA will monitor airport sponsor submissions of annual audit certifications and review the audit certifications upon their receipt. Failure to comply with 49 U.S.C. § 47107(m) and the grant assurance implementing the single audit review and opinion will result in the withholding of future AIP grant awards and existing grant payments.

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